



August 21, 2014  
Equity Focus  
Rating: BUY  
TP: HK\$ 3.40

H-Share price (HK\$) 2.95  
Est. share price return 15.25%  
Est. FY14E dividend yield 3.99%  
Est. total return 19.24%

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**Key Data**

52Wk H/L(HK\$)	3.20/2.66
Issued shares (mn)	10,996
H-Shares (mn)	3,024
Unlisted shares (mn)	7,972
Market cap	
H-shares (HK\$ mn)	8,920
Unlisted shares (HK\$ mn)	23,517
3-mth avg daily turnover (HK\$ mn)	0.77
Major shareholder(s) (%):	
Harbin Economic Development	19.65

Source(s): Company, Bloomberg, ABCI Securities

**1H14 Operating income breakdown (%)**

Corporate banking	43.8
Personal banking	28.5
Treasury	26.8
Others	0.9

Source(s): Company, ABCI Securities

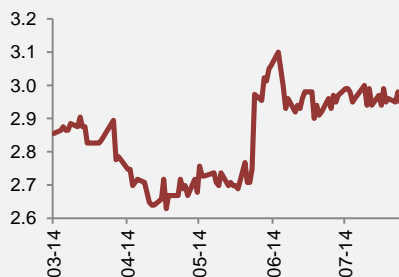
**Share performance (%)**

	Absolute	Relative*
1-mth	(0.3)	(7.4)
3-mth	9.3	(0.2)
6-mth	na	na

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

**1-Year stock performance (HK\$)**



Source(s): Bloomberg

## Harbin Bank Co., Ltd. (6138 HK)

### Key takeaways from analyst briefing

- HRB's reported its 1H14 net profit of RMB 1,982mn, up 25.83% YoY. CIR improved by 2.36ppt while NIM expanded by 5bps YoY
- Although increases in overdue loan ratio and NPL ratio were seen in 1H14, management indicated tighter risk measures have been adopted and is confident about maintaining a stable asset quality in 2H14
- The bank's ability to raise LDR by 3.62ppt in 1H14 is encouraging. Meanwhile, loan pricing was stable in 2Q14
- The counter is currently trading at 0.88x 14E P/B. We raise our TP by 8.2% to HK\$ 3.40, which implies a 15.25% upside, Reiterate **BUY**

**1H14 net profit grew 25%.** HRB reported a 1H14 net profit of RMB 1,982mn, up 25.83% YoY, accounting for 47.9% of our full-year forecast. With the bank's dedication to increase profitability through cost control and balance sheet growth, HRB's CIR fell by 2.36ppt YoY to 31.9%. NIM expanded by 5bps YoY in 1H14 to 2.6%, thus NII rose 24.95% YoY. Net fee surged by 62.37% YoY in 1H14 and aggregated to 16.53% (1H13:12.95%) of top line revenue.

**Confident in maintaining a stable asset quality.** Although overdue loan ratio increased by 0.5ppt HoH to 1.8% in 1H14, NPL ratio rose by 9bps HoH to 0.94%, of which loans to small enterprises and farmers were the key contributors whose NPL ratios increased by 48bps and 68bps on Heilongjiang's slower economy after the flood in 2013. Overall, we believe HRB's asset quality would remain manageable in 2H14, as NPL ratios of loans to small-enterprise owners and personal consumption loans fell by 19bps and 24bps in 1H14, reflecting the Group's risk-cautious attitude.

**Increased LDR to unleash potentials.** HRB's ability to increase its LDR after its IPO is encouraging. With loan and deposit growing by 12.99% and 4.95% HoH in 1H14, the bank's LDR rose by 3.62ppt to 50.88%, which contributed much to its profit growth and NIM expansion in 1H14, approaching its long-term optimal target of 60%. It is worth noting that HRB's 1H14 loan growth of RMB 13.8bn represents 76.7% of its 2013 full-year loan growth. Besides, management confirmed that the bank's loan pricing stayed positive in 2Q14 with an increased SME loan yield and a stable farmer loan yield.

**Valuation rolled over to mid-15E BVPS; reiterate BUY.** The counter is currently trading at 0.88x 14E P/B, We raise our TP by 8.2% to HK\$3.40, pegged to mid-15E BVPS and implies a 15.25% upside. Reiterate **BUY**.

**Risk factors:** 1) Asset quality deterioration in HLJ; 2) Pricing competition from big banks entering the local regions; 3) Failure to optimize business mix and raise LDR; 4) Cross-region business development risk.

**Results and Valuation**

FY ended Dec 31	2012A	2013A	2014E	2015E	2016E
Revenue (RMB mn)	7,711	8,544	11,301	13,838	16,604
Chg (% YoY)	42.4	10.8	32.3	22.5	20.0
Net profit (RMB mn)	2,864	3,350	4,137	5,065	5,954
Chg (% YoY)	54.5	17.0	23.5	22.4	17.5
EPS (RMB)	0.37	0.42	0.40	0.46	0.54
Chg (% YoY)	8.8	14.6	(5.3)	14.8	17.5
BVPS (RMB)	2.24	2.42	2.68	3.13	3.66
Chg (% YoY)	20.2	7.9	11.0	16.8	16.7
P/E (x)	6.38	5.57	5.88	5.12	4.36
P/B (x)	1.05	0.98	0.88	0.75	0.65
ROE (%)	1.19	1.12	1.17	1.20	1.22
ROA (%)	20.35	18.36	16.74	15.84	15.95
DPS(RMB)	0.02	0.04	0.09	0.12	0.14
Yield (%)	0.94	1.61	3.99	4.88	5.74

Source(s): Bloomberg, ABCI estimates



**Exhibit 1: HRB's interim results summary**

<b>Income statement</b>	<b>1H13</b>	<b>1H14</b>	<b>YoY (%)</b>
Net interest income	3,281	4,099	24.9
Net fee and commission income	512	832	62.4
Operating income	3,955	5,032	27.2
Operating expenses	(1,589)	(1,987)	25.0
Impairment losses	(276)	(392)	41.9
Profit before tax	2,094	2,664	27.2
Net profit	1,575	1,982	25.8
Key ratio (%)			
NIM	2.55	2.60	0.05
Net fee to operating income	12.95	16.53	3.58
CIR	34.29	31.93	(2.36)
ROAA	1.12	1.20	0.08
ROAE	18.04	16.77	(1.27)
<b>Balance sheet</b>	<b>Dec-13</b>	<b>Jun-14</b>	<b>HoH (%)</b>
Total assets	322,175	344,143	6.8
Loans	105,941	119,704	13.0
Deposits	224,178	235,266	4.9
Total equity	19,927	28,155	41.3
Key ratio (%)			
CT1 CAR	10.68	14.01	3.33
Total CAR	11.95	15.26	3.31
NPL ratio	0.85	0.94	0.09
Provisioning ratio	2.29	2.34	0.05
Provision coverage ratio	268.34	249.40	(18.94)
LDR	47.26	50.88	3.62

Source(s): Company, ABCI Securities



Consolidated income statement (2012A-2016E)

FY Ended Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Net interest income	6,658	6,818	8,980	10,531	12,128
Net fee and commission	679	1,247	1,746	2,532	3,544
Other operating income	374	479	575	776	931
<b>Operating income</b>	<b>7,711</b>	<b>8,544</b>	<b>11,301</b>	<b>13,838</b>	<b>16,604</b>
Operating expenses	(3,026)	(3,591)	(4,596)	(5,746)	(7,182)
Impairment losses	(836)	(506)	(1,165)	(1,316)	(1,461)
Investment in associates	9	3	4	4	5
<b>Profit before tax</b>	<b>3,859</b>	<b>4,450</b>	<b>5,543</b>	<b>6,781</b>	<b>7,966</b>
Income tax expenses	(987)	(1,079)	(1,386)	(1,695)	(1,991)
MI	(7)	(21)	(20)	(20)	(20)
<b>Net profit</b>	<b>2,864</b>	<b>3,350</b>	<b>4,137</b>	<b>5,065</b>	<b>5,954</b>
<b>Growth (%)</b>					
Net interest income	38.2	2.4	31.7	17.3	15.2
Net fee and commission	64.8	83.8	40.0	45.0	40.0
Other operating income	103.2	28.0	20.0	35.0	20.0
<b>Operating income</b>	<b>42.4</b>	<b>10.8</b>	<b>32.3</b>	<b>22.5</b>	<b>20.0</b>
Operating expenses	45.3	18.7	28.0	25.0	25.0
Impairment losses	1.5	(39.5)	130.1	13.0	11.0
Investment in associates	na	na	15.0	15.0	15.0
<b>Profit before tax</b>	<b>53.9</b>	<b>15.3</b>	<b>24.6</b>	<b>22.3</b>	<b>17.5</b>
Income tax expenses	51.7	9.3	28.4	22.3	17.5
MI	228.3	187.8	(3.6)	0.0	0.0
<b>Net profit</b>	<b>54.5</b>	<b>17.0</b>	<b>23.5</b>	<b>22.4</b>	<b>17.5</b>
<b>Per share (RMB)</b>					
EPS	0.37	0.42	0.40	0.46	0.54
BVPS	2.24	2.42	2.68	3.13	3.66
DPS	0.02	0.04	0.09	0.12	0.14
<b>Key ratio (%)</b>					
Net interest margin	3.09	2.64	2.56	2.53	2.52
Net interest spread	3.06	2.56	2.35	2.29	2.28
Cost to income ratio	39.24	42.03	40.67	41.52	43.26
Return on average assets	1.20	1.14	1.17	1.20	1.22
Return on average equity	20.35	18.36	16.74	15.84	15.95
Effective tax rate	25.6	24.2	25.0	25.0	25.0
Dividend payout	6.0	9.4	25.0	25.0	25.0

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2012A-2016E)

As of Dec 31 (RMB mn)	2012A	2013A	2014E	2015E	2016E
Cash and bank	51,859	51,552	57,738	62,357	67,346
Due from bank and FIs	71,692	84,982	100,279	116,323	127,956
Net loans	85,298	103,515	123,924	146,386	170,075
Investment securities	51,180	75,725	97,363	120,461	143,642
<b>Total IEA</b>	<b>260,029</b>	<b>315,774</b>	<b>379,303</b>	<b>445,528</b>	<b>509,019</b>
Other assets	10,061	6,401	7,681	9,217	11,061
<b>Total assets</b>	<b>270,090</b>	<b>322,175</b>	<b>386,984</b>	<b>454,746</b>	<b>520,080</b>
Customer deposits	186,642	224,178	264,530	309,500	359,020
Due to bank and FIs	59,951	70,489	78,948	86,843	95,527
Subordinated debt	3,500	3,500	8,750	17,500	17,500
<b>Total IBL</b>	<b>250,093</b>	<b>298,167</b>	<b>352,228</b>	<b>413,843</b>	<b>472,047</b>
Other liabilities	3,060	4,081	5,256	6,447	7,836
<b>Total liabilities</b>	<b>253,153</b>	<b>302,248</b>	<b>357,485</b>	<b>420,290</b>	<b>479,883</b>
Share capital	7,560	8,247	10,996	10,996	10,996
Retained earnings	3,179	4,031	7,134	10,933	15,399
Reserves	6,025	7,450	11,078	12,186	13,405
MI	172	200	292	341	398
<b>Total equity</b>	<b>16,937</b>	<b>19,927</b>	<b>29,500</b>	<b>34,456</b>	<b>40,197</b>
<b>Growth (%)</b>					
Cash and bank	67.6	(0.6)	12.0	8.0	8.0
Due from bank and FIs	8.8	18.5	18.0	16.0	10.0
Net loans	27.3	21.4	19.7	18.1	16.2
Investment securities	42.0	48.0	28.6	23.7	19.2
<b>Total IEA</b>	<b>30.1</b>	<b>21.4</b>	<b>20.1</b>	<b>17.5</b>	<b>14.3</b>
<b>Total assets</b>	<b>30.7</b>	<b>19.3</b>	<b>20.1</b>	<b>17.5</b>	<b>14.4</b>
Customer deposits	27.9	20.1	18.0	17.0	16.0
Due to bank and FIs	29.8	17.6	12.0	10.0	10.0
Subordinated debt	250.0	0.0	150.0	100.0	0.0
<b>Total IBL</b>	<b>29.5</b>	<b>19.2</b>	<b>18.1</b>	<b>17.5</b>	<b>14.1</b>
<b>Total liabilities</b>	<b>29.7</b>	<b>19.4</b>	<b>18.3</b>	<b>17.6</b>	<b>14.2</b>
<b>Total equity</b>	<b>46.9</b>	<b>17.7</b>	<b>48.0</b>	<b>16.8</b>	<b>16.7</b>
<b>Key ratio (%)</b>					
Loan to deposits	46.8	47.3	48.0	48.5	48.6
CT1 CAR	11.9	11.7	12.6	12.0	11.9
Total CAR	13.0	12.6	14.9	13.9	13.6
NPL ratio	0.64	0.85	0.90	0.95	1.00
NPL growth	31.5	61.2	26.9	24.8	22.4
Net bad debt charge ratio	1.1	0.5	1.0	1.0	0.9
Provision to total loans	2.3	2.3	2.4	2.5	2.6
Provision coverage	352.1	269.4	266.7	263.2	255.0

Source(s): Company, ABCI Securities estimates



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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return – 6% $\leq$ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2007-2011

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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